

# Strategic Asset Allocation Changes

Presentation to the Investments and Pensions Oversight Committee

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David Abbey, Director  
Legislative Finance Committee

# Transition toward Alternative Investments

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- ▶ Before 2004, public pensions invested largely in stocks and bonds.
- ▶ Alternative investments, including private equity, hedge funds, and real estate, became popular as pension officials looked to optimize the risk/return ratio by diversifying holdings.
- ▶ Bigger investment gains could help avoid requiring larger employees contributions or reduced benefits for retirees.
- ▶ Public pensions began investing in hedge funds roughly ten years ago, seeking to increase long-term returns, reduce risk, and close the gap between assets and future obligations.
- ▶ Alternative investments have different fee structures, and can be relatively more costly than traditional investments (management fee plus profit share).
- ▶ Recent changes to pension and endowment investment strategies could provide insight to New Mexico's investment agencies.

# Other Large Investment Funds

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- ▶ CalPERS: California Public Employees' Retirement System – Largest U.S. Pension Plan - \$301 billion as of 8/27/14
- ▶ Asset allocation strategy: 47% public equity, 12% private equity, 19% fixed income, 14% real assets, 6% inflation assets (commodities, inflation-linked bonds), 2% liquidity.
- ▶ WSJ: “[CalPERS] is a bellwether for investment trends at other public plans. Any shift it makes will likely influence others because of its size and history as an early adopter of alternatives to stocks and bonds.”
- ▶ Among the first to diversify from stocks and bonds: investing in real estate in the 1990s; hedge funds and private equity in early 2000s.
- ▶ February, 2014: reduced exposure to equities and private equity, increasing allocations to bonds and real estate.
- ▶ Hedge funds – 1.5% of portfolio. CalPERS among the first public pensions to invest in hedge funds, but WSJ reports it is reducing exposure by 40% from \$5 billion to \$3 billion.

## Other Large Investment Funds, Cont.

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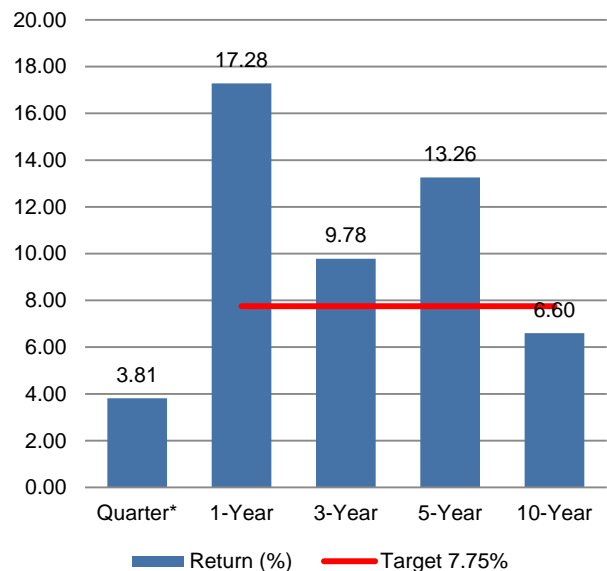
- ▶ Yale University Endowment - \$20.8 billion as of June 30, 2013.
- ▶ In 1993, just under 50% of the endowment invested in U.S. stocks, bonds, and cash, approximately one-tenth of the portfolio, while foreign equity, private equity, absolute return strategies, and real assets represent nearly nine-tenths.
- ▶ Yale notes the allocation to non-traditional asset classes stems from their return potential and diversifying power.
- ▶ Elected in 2013 to lower the percentage of assets dedicated to private-equity investments for the first time since 2005.
- ▶ Reduced its target exposure to private equity to 31% (from 35%).
- ▶ Also reduced its targets for real estate, while increasing allocation targets for hedge funds, foreign equities and natural resources.

# New Mexico's Investment Agencies

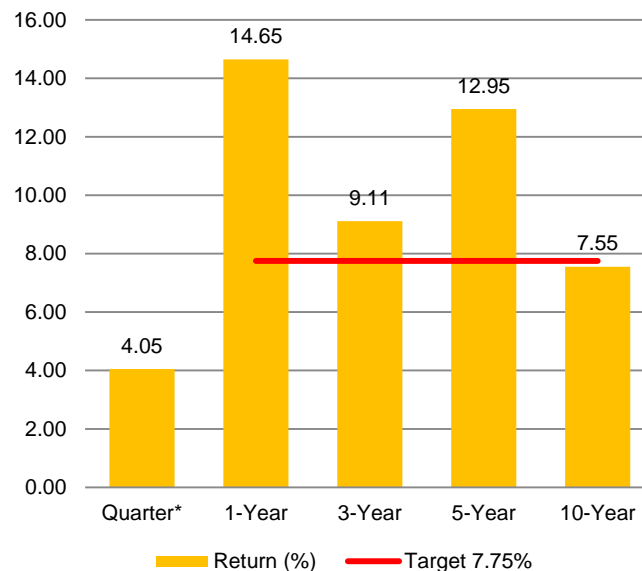
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- ▶ All three investment agencies recently performed asset allocation studies and approved changes to the strategic asset allocations:
  - ▶ **SIC:** August, 2014 – approved changes to reduce LGPF allocation to domestic equity and absolute return, while increasing private equity, and real return. The international equity allocation will increase if the constitutional amendment to remove the cap on this allocation passes in the Nov. general election, otherwise it will decrease.
  - ▶ **PERA:** April, 2014 – approved changes to reduce allocation to domestic equity, while increasing allocations to international and private equity, fixed income, real estate, and real assets.
  - ▶ **ERB:** August, 2014 - reduced domestic equity, fixed income, absolute return allocation; increase real estate, real asset, private equity allocation.

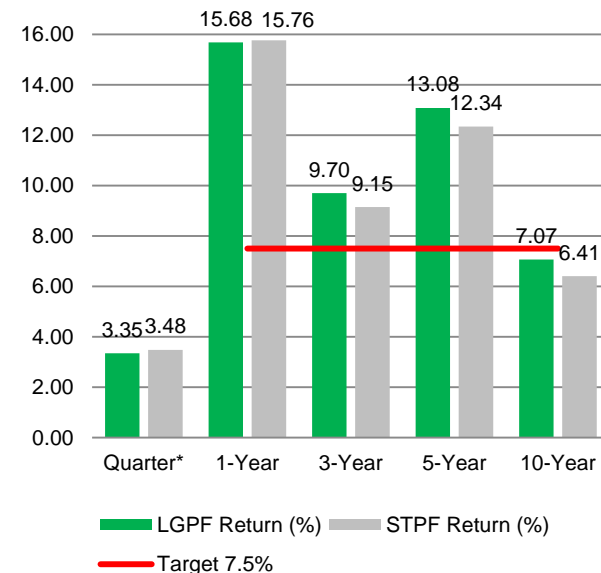
**PERA Total Portfolio Returns**  
As of June 30, 2014 - Ending Balance: \$14.6B  
(\*Not annualized)



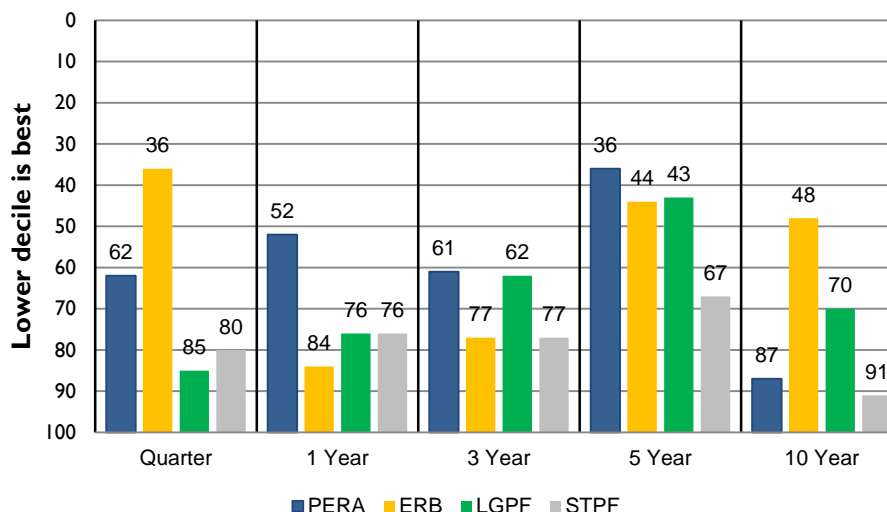
**ERB Total Portfolio Returns**  
As of June 30, 2014 - Ending Balance: \$11.3B  
(\*Not annualized)



**SIC Total Portfolio Returns**  
As of June 30, 2014 - Ending Balance:  
LGPF \$14.2B - STPF \$4.6B  
(\*Not annualized)



**TUCS Universe Rankings**  
(public funds > \$1 billion) For Period Ending 6/30/14



## Investment Agency Strategic Asset Allocation Targets

